

No. 89-861

(2)

Supreme Court, U.S.

FILED

JAN 2 1990

JOSEPH E. SPANIOL, JR.
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1989

TAMAO MORITA and MAGLEADER CO., LTD.,

Petitioners,

vs.

APPLICATION ART LABORATORIES CO., LTD.,

Respondent.

OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

JEFFREY A. SCHWAB*
ABELMAN FRAYNE
REZAC & SCHWAB
708 Third Avenue
New York, New York 10017
(212) 949-9022

**Counsel of Record*

QUESTIONS PRESENTED FOR REVIEW

In lieu of restating petitioners' "Questions Presented", which relate to issues which may or may not be appropriate should the Petition be granted, respondent believes that it is more appropriate to state the questions presented for review by the petition itself. The questions relevant to the evaluation of the petition are:

(1) Whether any of the questions the petitioners suggest this Court review on appeal fairly arise from the decision below;

(2) Whether the decision below is in conflict with a decision of another federal court of appeals on the same matter. *See* Sup. Ct. R. 10.1.(a); and

(3) Whether the court below so far departed from the accepted and usual course of judicial proceedings as to call for an exercise of this Court's power of supervision. *Id.*

LIST OF PARTIES

As a supplement to the petitioners' "List of Parties", respondent verifies that it is a Japanese corporation and adds that it has no parent companies, subsidiaries or affiliates to list pursuant to Sup. Ct. R. 29.1.

TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED FOR REVIEW	i
LIST OF PARTIES	ii
TABLE OF CONTENTS	iii
TABLE OF AUTHORITIES	iv
STATEMENT OF THE CASE	1
SUMMARY OF THE ARGUMENT	13
ARGUMENT	15
A. The Federal Circuit Followed Established Precedent in Refusing to Review the Propriety of the Issuance of the Preliminary Injunction	15
B. Had the Federal Circuit Reviewed the Propriety of the Issuance of the Preliminary Injunction, It Would Not Have Found an Abuse of Discretion . .	20
C. There is No Credible Evidence of Fraud on the Patent and Trademark Office	25
CONCLUSION	28
APPENDIX	A1

TABLE OF AUTHORITIES

Cases	Page
<i>Black Ass'n of New Orleans Fire Fighters v. New Orleans</i> , 853 F.2d 347, 354 (5th Cir. 1988)	16
<i>Buckhanon v. Percy</i> , 708 F.2d 1209, 1213-14 (7th Cir. 1983), cert. denied, 465 U.S. 1025 (1984)	16
<i>Cerro Metal Products v. Marshall</i> , 620 F.2d 964, 972 (3d Cir. 1980)	16
<i>Corrigan Dispatch Co. v. Casa Guzman, S.A.</i> , 569 F.2d 300, 303 (5th Cir. 1978)	25
<i>Diamond Scientific Co., v. Ambico, Inc.</i> , 848 F.2d 1220, 6 USPQ 2028 (Fed. Cir.), cert. dismissed, 109 S.Ct. 28 (1988)	21
<i>Fern v. Thorp Public School</i> , 532 F.2d 1120, 1130 (7th Cir. 1976)	16
<i>Friends For All Children v. Lockheed Aircraft</i> , 746 F.2d 816, 838 n.42 (D.C. Cir. 1984) .	25
<i>Godinez v. Lane</i> , 733 F.2d 1250, 1257 (7th Cir. 1984)	17
<i>H.H. Robertson Co. v. U.S. Deck Inc.</i> , 820 F.2d 384, 387 (Fed. Cir. 1987)	21, 22, 23
<i>Hybritech Inc. v. Abbott Labs</i> , 849 F.2d 1446, 1451 (Fed. Cir. 1988)	21, 24

	Page
<i>Illinois v. Peters</i> , 871 F.2d 1336, 1339 (7th Cir. 1989)	16
<i>Loctite Corp. v. Ultraseal Ltd.</i> , 781 F.2d 861, 872 (Fed. Cir. 1985)	24
<i>Marder v. G.D. Searle & Co.</i> , 630 F. Supp. 1087, 1093 (D.Md 1986)	27
<i>Merrell-National Laboratories, Inc. v. Zenith Laboratories, Inc.</i> , 579 F.2d 786, 791 (3d Cir. 1978)	16
<i>Pretty Punch Shoppettes, Inc. v. Hauk</i> , 844 F.2d 782, 784 (Fed. Cir. 1988)	25
<i>Price v. Williams</i> , 393 F.2d 348, 352 & n.4 (D.C. Cir. 1968)	24
<i>Professional Plan Examiners of New Jersey, Inc. v. Lefante</i> , 750 F.2d 282, 287 (3d Cir. 1984)	17
<i>Roche Products Inc. v. Bolar Pharmaceutical Co.</i> , 733 F.2d 858, 865 (Fed. Cir. 1984)	21
<i>Roper Corp. v. Litton Systems, Inc.</i> , 757 F.2d 1226, 1271-72 (Fed. Cir. 1985)	23
<i>Sierra On-Line, Inc. v. Phoenix Hardware, Inc.</i> , 739 F.2d 1415 (9th Cir. 1984)	20, 21
<i>U.S. v. R.J. Reynolds Tobacco Co.</i> , 416 F. Supp. 316, 325 (D.N.J. 1976)	27

	Page
Statutes and Rules	
35 U.S.C. §102	3
28 U.S.C. §283	9, 12, 13, 21
Fed. R. Civ. P. 52	9, 12, 13, 24, 25
Fed. R. Civ. P. 65	9, 12, 13, 22, 23, 25
Fed. R. Evid. 702-705	24
Sup. Ct. R. 10.1.(a)	i, 14
Sup. Ct. R. 15.1.	1
Sup. Ct. R. 24.2.	1
Sup. Ct. R. 29.1.	ii

Miscellaneous

5A J. Moore & J. Lucas, <i>Moore's Federal Practice</i> ¶ 52.06[1] at 52-138 (2d ed. 1985)	24
--	----



STATEMENT OF THE CASE

Respondent, Application Art Laboratories Co., Ltd., offers the following statement of the case to correct and supplement that submitted by the petitioners, Tamao Morita and Magleader Co., Ltd., pursuant to Sup. Ct. R. 15.1. and 24.2. There are gross errors in petitioners' statement of the case, but except to the limited extent necessary to present an accurate context for consideration of the issues raised by the Petition, respondent will not address those errors here.

The record before the district court, the circumstances relating to the grant of the preliminary injunction and petitioners' motion to dissolve the injunction all demonstrate that the Federal Circuit's opinion is consistent with the decisions of other federal circuit courts. There is no split of authority whatsoever, nor has there been any abuse of discretion by any court below. On the record, the intercession of this Court is simply not appropriate.

In 1972, in Japan, petitioner Tamao Morita¹ and respondent's predecessor² were engaged in a business relationship. In the context of that relationship, Mr. Morita transferred the ownership of an invention for a magnetic lock closure which has particular suitability as a closure for women's handbags to the respondent's predecessor. The respondent, with petitioners' knowledge and assistance, filed a Japanese patent application for the magnetic lock closure. In

¹ Mr. Morita is a Japanese citizen. Petitioner Magleader Co. Ltd. is the latest of a series of family controlled Japanese businesses of Mr. Morita.

² For ease of reference, the term respondent shall include Application Art Co., Ltd.'s predecessors in interest as well.

1974 and 1975, corresponding United States utility and design patent applications for the magnetic lock closure were filed by respondent. The utility patent application issued in 1977 as U.S. Patent No. 4,021,891 (the '891 patent), and the design application issued in 1978 as U.S. Design Patent No. 247,468 (the '468 patent).

In 1976, the relationship between the parties began to deteriorate. Thereafter, through the respondent's efforts, the magnetic lock closure achieved significant commercial success in Japan and the United States. Petitioner, Mr. Morita, has since sought to illegally recapture the invention and patents. In Japan, he illegally completed a blank deed of assignment re-transferring ownership of an interest in the Japanese patent to himself. In the ensuing Japanese litigation between the parties, the Japanese tribunal, after characterizing Mr. Morita as "lack[ing] credibility" and "hard to believe", ordered him to return what he had stolen.

In the United States, petitioner Morita sought to recapture the magnetic lock closure invention by, in 1979, filing a United States patent application allegedly directed to a variant of the magnetic lock closure. Through misrepresentations to the United States Patent and Trademark Office (PTO), the petitioners obtained, in 1984, U.S. Patent 4,453,294 (the '294 patent), which purports to cover the very invention previously transferred to the respondent, and which is the subject of its '891 and '468 patents.

Petitioners thereupon began a campaign of misinforming the trade by representing that the '294 patent, and not respondent's '891 patent, covered the magnetic lock closure. Respondent immediately initiated a declaratory judgement action (one of the two actions consolidated below which jointly are the subject

of the instant petition) seeking invalidation of the '294 patent.

In 1985, on the eve of trial, petitioners filed an action against respondent seeking a declaration of the invalidity of respondent's patents. Petitioners' complaint affirmatively acknowledged that respondent owned the '891 and '468 patents³. Respondent counterclaimed for infringement of the '891 and '468 patents. The district court consolidated the actions and postponed trial.

In August of 1988, after three more years of discovery, a final Pre-Trial Order was entered for the consolidated trials. The Pre-Trial Order substantially narrowed the issues between the parties. Petitioners *conceded* respondent's ownership of the '891 and '468 patents and dropped all attacks on validity of those patents based upon prior art. Petitioners did not retain any defense predicated upon alleged invalidity or non-infringement of the '468 patent. Respondent's position, as reflected in the Pre-Trial Order, was that the '294 patent was invalid (1) in view of the earlier '891 and '468 patents, and (2) because the patented device was offered for sale in the United States more than one year before its 1979 filing date. *See* 35 U.S.C. §102. In addition, respondent asserted that petitioners' products infringed the '891 and '468 patents.

³ Petitioners' Complaint alleges in paragraph 5:

United States Letters Patent No. 4,021,891 (hereinafter "said Letters Patent") was issued on May 10, 1977 in the name of the inventor, plaintiff Morita, *and assigned to defendant Application Art*, for an invention entitled "Magnetic Lock Closure", *and Application Art since that date has been and is presently the owner of said Letters Patent.*

(Emphasis added).

Petitioners proposed that they would produce evidence at trial establishing that there was a difference in the invention claimed by the '294 patent on the one hand, and the '891 and '468 patents on the other hand; establishing that the prior sales invalidating the '294 patent did not occur; and proving that respondent was the infringer of their '294 patent.

Trial began on August 15, 1988. After the district court ruled on several motions which necessitated its review of the claims of the reexamined '891 patent, petitioners' magnetics expert was called to testify. No doubt to the chagrin of the petitioners, he conceded that the alleged improvement in the '294 patent was disclosed in the earlier '891 and '468 patents.

Next, the president of respondent's U.S. distributor provided documentary evidence invalidating the '294 patent, *i.e.*, evidence of offers for sale to the U.S. distributor of the magnetic lock closure made more than one year prior to the filing of petitioners' '294 patent application. During the second day of this witness' testimony, he identified a 1982 letter from petitioners' agent which acknowledged respondent's control of the '891 patent and its applicability to the magnetic lock closure. In this communication, petitioners, who were then as now, actively selling magnetic lock closures, proposed a united effort to control the market. At this juncture, the district court ordered a recess and called counsel into chambers.

In chambers, the court indicated that respondent had presented a *prima facie* case of invalidity of petitioners' '294 patent and infringement of respondent's '891 and '468 patents and asked petitioners' counsel how he intended to rebut the evidence. Counsel was unable to suggest any rebuttal. The court then suggested that the parties consider

settlement and called a recess to permit negotiations to be undertaken, if the parties wished. If not, the trial was to be immediately resumed.

At this juncture petitioners' present counsel joined the two law firms which had up to that time been representing the petitioners, and led the petitioners' negotiating team. Over the course of a Friday afternoon, the terms of a final settlement agreement and a separate handwritten letter personally signed by Mr. Morita were agreed upon and reduced to writing. Both were sealed in an envelope initialed by counsel with the express understanding that they were to be presented to the district court for entry as a final disposition of the case when the court reconvened the following Monday.

The negotiated agreement was precise in language, comprehensive in scope and final. It provided for the entry of a permanent injunction reading:

Effective immediately Morita and Magleader are hereby permanently enjoined from making, using or selling or having made used or sold magnetic lock closures which infringe U.S. Patent 4,021,891 or U.S. Design Patent 247,468, or inducing such acts, which injunction specifically includes but is not limited to magnetic lock closures which Morita and Magleader have heretofore asserted to be covered by U.S. Patent 4,453,294.

The enclosed letter, personally signed by Mr. Morita, reads in relevant part:

On behalf of this company and its president Tamao Morita, this letter is to inform you that we have conceded the total invalidity of U.S. Patent 4,453,294....

Representations were also made that U.S. Patent 4,021,891 owned by Application Art Laboratories Co. Ltd. and exclusively licensed to Randolph Rand Corporation was invalid and/or did not cover the magnetic snaps sold by Randolph Rand. That was incorrect and all statements made by us to that effect are retracted....

U.S. Patent 4,201,891 is valid and we infringed it by the sale of magnetic snaps purported to be covered under U.S. Patent 4,453,294. U.S. Patent 4,453,294 is invalid and protects nothing....

When court reconvened, the agreement was read into the record and the trial was concluded. However, over a month later petitioners moved to vacate the settlement agreement on the basis that they did not understand the agreement when it had been actually agreed to. Respondent opposed.

During an October 7, 1989 hearing, the transcript of which is attached hereto as an Appendix, the district court indicated that if it was going to hear

further evidence, it would be on the merits of the action and not on the settlement negotiations, and in that spirit vacated the settlement agreement.

The district court then reminded petitioners' counsel that they had been on full notice *since August 18th, 1988* that it had found a likelihood of success on the merits of respondent's allegations and invited respondent's counsel to move for a preliminary injunction identical in language to the permanent injunction that had been in place since August. Appendix at A3.

Upon respondent's motion for a preliminary injunction, the court inquired whether petitioners' counsel wanted to be heard at that time, or file a motion to dissolve. Appendix at A5. Petitioners' counsel stated that it preferred to file a motion to dissolve. Petitioners' counsel made no reservation, express or implied, that it be permitted to argue the merits of the injunction on its motion to dissolve. Nor was there any suggestion by the district court that it was reserving its ruling on the merits of the injunction. The district court then ordered the injunction immediately imposed.

Petitioners' statement that "... the district court led petitioners to believe that the merits of the underlying injunction order would be open to full and complete reconsideration at a later hearing ..." is not persuasive now and was not persuasive when argued before the Federal Circuit.

The October 11, 1988 preliminary injunction repeats verbatim the language of the permanent injunction imposed in August, and states:

[it is hereby] ORDERED,
that the motion for a preliminary
injunction is granted; and it is

FURTHER ORDERED,
that Tamao Morita, Magleader
Co., Ltd., their officers, agents,
servants, employees, attorneys,
and all other persons in active
concert or participation with
them, are preliminary enjoined
from making, using or selling,
and inducing others to make, use
or sell magnetic lock closures
which infringe U.S. Patent
4,021,891 of U.S. Design Patent
247,468, including but not limited
to, magnetic lock closures which
Morita and Magleader Co., Ltd.
have heretofore asserted to be
covered by U.S. Patent 4,453,294,
pendente lite ...

The injunction is precise in describing the device the sales of which are enjoined, and the merits and equities justifying it were of record. The court had heard and advised petitioners months before that there was compelling evidence that the magnetic lock closures sold in the United States by them infringed both the '891 and '468 patents. Infringement and validity of the '468 patent had been established in the Pre-Trial Order. Evidence of infringement of the '891 patent was equally compelling especially considering that Mr. Morita had personally signed a letter acknowledging the validity and his infringement of the '891 patent.

In August the petitioners were unable to even suggest evidence they might offer to rebut the

proof offered by the respondent, and the state of the record was the same on October 11th. Petitioners neither appealed, nor sought reconsideration of the October 11, 1988 preliminary injunction order.

On October 26, 1988, petitioners filed a "Motion Pursuant to Fed. R. Civ. P. 65 to Dissolve Preliminary Injunction", which it later supplemented.⁴ Petitioners argued that the preliminary injunction should be dissolved because:

- respondent had not, as required by 35 U.S.C. §283, established (1) a likelihood of success on the merits, (2) irreparable harm, (3) a balance of hardships tipping in its favor, or that (4) issuance of the injunction was in the public interest;
- that the injunction should be dissolved because the order failed to comply with Fed. R. Civ. P. 65(d);⁵ and
- that new evidence existed establishing forgeries of Mr. Morita's signatures on certain documents submitted to the PTO

⁴ During the October 7, 1989 hearing, the petitioners were granted permission to file, within ten (10) days, a motion to dissolve the preliminary injunction. See Appendix at 14. Despite being nine (9) days late, the district court agreed to consider petitioners' belated motion to dissolve.

⁵ Although petitioners never challenged the injunction's compliance with Fed. R. Civ. P. 52(a) in their motion to dissolve, in their present petition, they suggest that the Federal Circuit erred in its failure to review the order's compliance with Rule 52.

in respect to the '891 and '468 patents.⁶

In Mr. Morita's declaration in support of petitioners' motion there was a conspicuous absence of a simple statement from Mr. Morita denying the authenticity of his signature, or an assertion that he did not execute the assignments. Nor did Mr. Morita suggest that any of the selective signatures his expert reviewed did not appear to be his. Rather, he stated: "I do not believe that I signed these assignments ..." The handwriting expert's declaration was even less compelling, particularly on the critical issue of assignment of the '891 patent, on which he stated:

I cannot determine whether the signature on the document is genuine or not because of lack of representative genuine signatures of Tamao Morita in the 1974 time frame for comparative purposes.

Given the insubstantiality of this "evidence" *no rebuttal was required*. However a rebuttal was made, when respondent's counsel related a litany of examples in the record where petitioners had taken the very opposite view, acknowledging time after time that respondent owned the '891 patent.

In response to these belatedly filed, ever shifting charges, respondent argued that the injunction should not be dissolved and that the petitioners should not be permitted to re-open the Pre-Trial Order, which

⁶ Although petitioners' allegations seem to expand in scope with the passage of time, the original motion relates to *assignment* of patents, not the applications themselves and therefore under no circumstances would there be "fraud on the PTO".

as entered would not permit them to even raise the forgery issue.⁷ While denying the motion to dissolve, the court permitted a re-opening of the Pre-Trial Order, stating:

It seems to me that everything that you have argued here really goes to the credibility of that particular defense. *And I have to confess that the credibility on the basis of what you have pointed out is somewhat dubious.* Nevertheless, if it would in effect perpetrate a fraud on the Court -- *even if it's a remote chance* that there is a fraud being perpetrated on the Court, I would like to have that resolved. And I think that ultimately it would be to your client's advantage to have it resolved in a manner in which it becomes Res Judicata, assuming, of course, you are correct in your position.

Transcript of Motions and Status Call, January 11, 1989, before the Honorable Thomas P. Jackson, USDJ, at 13 (emphasis added).

Petitioners then appealed the denial of their motion to dissolve, seeking reversal of the district court's refusal to dissolve the preliminary injunction, and urging that the decision was an abuse of discretion in view of their allegation of forgery. Petitioners also attempted to secure review by the Federal Circuit of

⁷ Simultaneously with their motion to dissolve, petitioners moved to re-open the Pre-Trial Order.

issues relating to the grant of preliminary injunction in the first instance, *e.g.*, compliance with 28 U.S.C. §283 and Fed. R. Civ. P. 65, and raised further procedural issues relating to the initial issuance of the preliminary injunction which were never raised in their motion to dissolve, *e.g.*, compliance with Fed. R. Civ. P. 52.

In affirming the district court, the Federal Circuit looked first to the general rule that:

appellate review of a motion to dissolve a preliminary injunction is limited to the propriety of the denial of the motion and does not extend to the propriety of the grant of the underlying injunction.

Appendix to Petition at 2a.

The Federal Circuit then acknowledged that there are circumstances which in appropriate cases broaden the scope of review, but determined that petitioners not only "failed to timely appeal that order ..." they further failed to "... show either excusable neglect or good cause for not having done so." *Id.* at 3a.

The Federal Circuit then reviewed the district court's factual finding that the petitioners had not demonstrated changed circumstances supporting their application to dissolve the preliminary injunction and, noting the skepticism with which the district court viewed petitioners' allegation of fraud, the Federal Circuit found no abuse of "discretion in not dissolving

its preliminary injunction." *Id.* at 3a-4a.⁸ The district court's refusal to dissolve its preliminary injunction was affirmed in a July 28, 1989, non-published, non-citable decision. It is that decision which is the subject of petitioners' petition.

SUMMARY OF THE ARGUMENT

There is simply no reason warranting this Court's review of the Federal Circuit's non-citable decision. It is not in conflict with the decision in any other circuit, and no abuse of discretion by either the district court or the Federal Circuit has occurred.

Further, there was no legal error by the Federal Circuit. It applied the general rule followed by all federal circuit courts of appeal concerning the scope of review on appeal of a district court's denial of a motion to dissolve a preliminary injunction, to wit: generally the propriety of the issuance of the injunction is not reviewable absent a showing of "special circumstances". Cognizant of this rule, the Federal Circuit considered whether special circumstances existed warranting a review of the propriety of the issuance of the preliminary injunction, and found that there were none.

⁸ The Federal Circuit did not, as petitioners argue, reject its contention that the district court failed to satisfy the requirements of 35 U.S.C. § 283 and Fed. R. Civ. P. 52 and 65, or that it abused its discretion when fixing the bond. See Petition at 7. Rather, the Federal Circuit held that these issues were not properly before it. Appendix to Petition at 3a. Petitioners' more extreme statement that "... the Federal Circuit found no fault with the fact that no findings as required by Fed. R. Civ. P. 52(a) were made with respect to the fraudulent documents issue" is a shocking contortion of the Federal Circuit's opinion. See Petition at 8.

Given the non-citable nature of the Federal Circuit's decision, the essential premise relied upon by petitioners, *i.e.*, that "the Federal Circuit has started a spurious line of authority ...," which "will have a pernicious affect on interlocutory appeals from injunctive relief ..." is flawed. This opinion is not authority and there is therefore no predicate under Sup. Ct. R. 10.1.(a) for the grant of petitioners' request. The law as it was applied to the record was deemed so straightforward that the decision was, for that reason, designated to be non-citable.

Petitioners may wish to take issue with the Federal Circuit's finding that there are no special circumstances justifying its review of the issuance of the injunction, but their quarrel is with the appellate court's assessment of the record, not with its pronouncement of a "spurious, new line of authority ...", since no such pronouncement was issued.

Further, the Federal Circuit did not err in its assessment of the circumstances surrounding petitioners' motion to dissolve, or in its refusal to address the circumstances surrounding the entry of the injunction itself for that matter. The record does not support the view that the district court in any way abused its discretion, yet alone so severely abused it that this Court's direct supervision is appropriate. Even if petitioners were correct, which they are not, in asserting that their hand-picked expert presented "uncontroverted evidence of fraud" on the PTO, a district court need not accept expert testimony where in the context of all of the circumstances of the case, it is not credible. However, that issue need not be addressed here since the record is replete with statements by Mr. Morita himself controverting his extraordinary and conveniently timed *new* allegations of fraud.

ARGUMENT

A. The Federal Circuit Followed Established Precedent in Refusing to Review the Propriety of the Issuance of the Preliminary Injunction

Petitioners' underlying premise that the decision of the Court of Appeals for the Federal Circuit would be in substantial conflict with decisions in other circuits, were it citable as authority, is triply flawed. In an effort to manufacture a "*direct conflict*" between the circuits which would support their petition, petitioners (1) misstate the law concerning the scope of appellate review of an appeal of the denial of a motion to dissolve a preliminary injunction, (2) mischaracterize the Federal Circuit's decision, and (3) erroneously report the facts below. The opinion demonstrates that the Federal Circuit correctly acknowledged the general rule relating to appellate review of a denial of a motion to dissolve a preliminary injunction, as well as the special circumstances which, in unusual cases, permit a broader appellate consideration of the initial grant of the injunction. The Federal Circuit found that the petitioners had failed to present facts which warranted application of any exception to the general rule. There is no conflict between the Federal Circuit's decision and the decision in any other circuit.

The general rule of law applicable throughout the circuits, and cited by the Federal Circuit, is that:

a defendant should [not] be allowed to use the appealability of an order denying modification of an injunction to circumvent the time bar to appeal from the underlying preliminary injunction.

The purpose of the motion to modify an injunction is to demonstrate that changed circumstances make the continuation of the order inequitable. The motion does not force the trial judge to permit relitigation of his original determination of the injunction

Merrell-National Laboratories, Inc. v. Zenith Laboratories, Inc., 579 F.2d 786, 791 (3d Cir. 1978).

Every authority cited by the petitioners acknowledges this as the general rule. The Third and Seventh Circuits apply this rule. These circuits have, however, recognized that there are "special circumstances" which justify a review of the underlying injunction, such as where the failure to appeal the issuance of the injunction was excusable and there was a substantial abuse of discretion when the injunction issued, or where the issues are inextricably intertwined which effectively results in review of the motion to dissolve being identical to a review of the underlying injunction.⁹ None of those factual circumstances are

⁹ *Cerro Metal Products v. Marshall*, 620 F.2d 964, 972 (3d Cir. 1980)(review of the injunction permitted where the issues are inextricably intertwined); *Illinois v. Peters*, 871 F.2d 1336, 1339 (7th Cir. 1989)(inextricably intertwined issues which effectively results in review of the motion to dissolve being identical to a review of the underlying injunction); *Buckhanon v. Percy*, 708 F.2d 1209, 1213-14 (7th Cir. 1983), *cert. denied*, 465 U.S. 1025 (1984)(review of the injunction permitted where the failure to appeal was excusable and there was a substantial abuse of discretion when the injunction issued); *Fern v. Thorp Public School*, 532 F.2d 1120, 1130 (7th Cir. 1976); *Black Ass'n of New Orleans Fire Fighters v. New Orleans*, 853 F.2d 347, 354 (5th Cir. 1988)(review of the injunction permitted where there was a substantial abuse of discretion when the injunction issued or where the new issues raised are inextricably linked with the merits of the underlying order);

present here and the Federal Circuit so stated. Petitioners suggest that "[t]he Federal Circuit made a major error and has created a major division among the circuits when it held that the district court's tentative, hastily considered order of October 7, 1988 was *only appealable when granted*. No circuit follows the Federal Circuit's position." Petition at 10. Petitioners are mistaken. The time to appeal began on October 7, 1988 and respondent is unaware of any authority in any circuit which would have extended the time to appeal. Furthermore, the district court's order was hardly tentative or hastily considered. It was imposed after four (4) years of litigation, after a nearly completed trial, with a signed admission of liability before the district court -- and with petitioners unable to offer any substantive rebuttal of the merits of the case other than a conveniently-timed and dubious allegation of fraud.

Whatever displeasure petitioners may have with the Federal Circuit's determination that no circumstances exist justifying review of the propriety of the injunction, that is not the issue here. The basis underlying the Federal Circuit's rejection of the petitioners' arguments is legally sound and is not in conflict with the legal principles applied by any other federal courts of appeal. See Sup. Ct. R. 10.1(a).

Petitioners' contend that they had no notice that an injunction was impending and that they were not prepared to argue the merits of the injunction at the October 7th hearing. This argument is neither accurate nor compelling. The occasion of the October 7, 1988 hearing was the return date of petitioners' motion to set aside the settlement agreement, which

Professional Plan Examiners of New Jersey, Inc. v. Lefante, 750 F.2d 282, 287 (3d Cir. 1984); *Godinez v. Lane*, 733 F.2d 1250, 1257 (7th Cir. 1984).

provided for a permanent injunction. It is inconceivable that petitioners, aware of the district court's earlier admonition concerning the tenuous nature of their entire case, were not aware that they it was likely that the district court would have maintained the *status quo*, and continued the then permanent injunction as an injunction *pendente lite*.

Petitioners' suggestion that the district court "led" its counsel to believe that the merits of the issuance of the injunction remained open after it ordered the injunction is unsupported by the record. Counsel was offered the opportunity to argue against issuance of the injunction before it issued, but declined in favor of a motion to dissolve. There was no attempt by counsel to reserve an opportunity to argue the merits underlying the grant, nor did counsel even inquire concerning the issue. Indeed, if petitioners' counsel believed at the time that the merits of the preliminary injunction had been reserved by the district court and were open for further argument, he was simply wrong. However, this is not the forum to have that issue decided. Petitioners attempted to make the identical argument before the Federal Circuit and it was found factually non-persuasive.

Throughout the appeals process, petitioners have attempted to suggest that they made an affirmative decision to not file a timely appeal fully aware of that decision's potential to preclude appellate review of the propriety of the merits of the underlying injunction, in reliance upon a short verbal exchange during which neither counsel nor the district court reserved petitioners' right to argue the underlying merits of the grant of the injunction.

Petitioners' explanation of their conduct is nothing more than a hindsight reconstruction of events, advanced in the hope of somehow availing itself of the

"excusable neglect" special exception. The Federal Circuit correctly was not convinced and the intercession of this Court based upon such a flimsy predicate is unwarranted.

Petitioners further argue that "[t]he district court *only* entered a *truly final* order on the injunction on January 11, 1989..." and that they noticed a timely appeal from that order. Petition at 11 (emphasis added). This is absurd. Surely petitioners are not now suggesting that the October 7, 1988 injunction was *ineffective* when ordered. However novel this argument may be, it does not provide a basis to suggest that a division among the circuit courts exists on the issue.

The Federal Circuit's refusal to review the propriety of the issuance of the preliminary injunction will not have a pernicious affect on interlocutory appeals from injunctive relief, nor will it improperly limit the district court's reconsideration of truly erroneous injunctive orders, as urged by petitioners. Petition at 12. To the contrary, had the Federal Circuit deemed the decision to be of sufficient moment to be citable as precedent, (which it did not) it would stand as a reminder to counsel that if they desire to attack the propriety of an injunction on a motion to dissolve, they must clearly demonstrate what special circumstances warrant that review, and set forth their allegations of such circumstances in a manner sufficiently clear so that both the district court and an appellate tribunal can determine whether or not they exist.

Further, if counsel believes that a district court intends to allow a belated argument on the merits of the preliminary injunction when it agrees to hear a motion to dissolve it, counsel should make certain that its understanding coincides with the understanding of

the court before allowing its time to notice an appeal expire.

**B. Had the Federal Circuit Reviewed
the Propriety of the Issuance of
the Preliminary Injunction, It Would
Not Have Found an Abuse of Discretion**

Petitioners request this Court's "direct supervision of the Federal Circuit's action ..." because the Federal Circuit allegedly failed to correct the district court's "clear abuse of discretion" in issuing the injunction. Petition at 13.

In support of its argument, petitioners cite *Sierra On-Line, Inc. v. Phoenix Hardware, Inc.*, 739 F.2d 1415 (9th Cir. 1984), for the "well established principle" that despite finding no special circumstances warranting review of the underlying injunction, an appellate court should review the correctness of the issuance of the injunction where "a motion to dissolve ... had pointed out these errors to the district court." Petition at 13.

Sierra does not establish that principle and even if it did, the principle has no application to these circumstances. In *Sierra* the court ruled that it need not consider the question of whether it could review the underlying injunction upon appeal of denial of a motion for reconsideration because it ultimately found a timely, but "inartfully drafted" appeal from the underlying injunction. *Id.* at 1420-21. However, in *dicta* the *Sierra* court recognized that "[a]n appellate court may make an exception to the general rule, and decide to review the merits of the underlying order, when it perceives a substantial abuse of discretion or when the new issues raised on reconsideration are

inextricably intertwined with the merits underlying the order." *Id.* at 1418 n. 4.

Given the actual record and the district court's considerable discretion in determining whether to issue an injunction, *Roche Products Inc. v. Bolar Pharmaceutical Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984), without question there was here no abuse of discretion. Although the Federal Circuit properly chose not to address the merits of the injunction, there was no error by the district court judge in its entry.

Respondent demonstrated both at the district court level and on appeal that it had satisfied all the requirements of 35 U.S.C. §283.¹⁰ Respondent presented to the district court convincing evidence that it was likely to establish petitioners' infringement of the '891 and '468 patents. Petitioners could muster no evidence or argument at trial to support its burden of proving either patent invalid. *H.H. Robertson Co. v. U.S. Deck Inc.*, 820 F.2d 384, 387 (Fed. Cir. 1987) ("The burden of proving invalidity is with the party attacking validity."). Petitioners had not challenged the validity of the '468 patent and in view of the Pre-Trial Order could not do so. Further, any evidence of invalidity petitioners might have sought to introduce may well have been precluded as a matter of law pursuant to the doctrine of assignor estoppel. *Diamond Scientific Co., v. Ambico, Inc.* 848 F.2d 1220, 6 USPQ 2028 (Fed. Cir.), *cert. dismissed*, 109 S.Ct. 28 (1988). Petitioners failed to even list a trial exhibit which could possibly have been used to show invalidity.

¹⁰ Before a preliminary injunction issues a court must find that a party has a reasonable likelihood of success on the merits, that continued infringement will cause irreparable harm, that the balance of hardships tip in the requestor's favor, and that the injunction does not harm the public's interest. *Hybritech Inc. v. Abbott Labs*, 849 F.2d 1446, 1451 (Fed. Cir. 1988).

Perhaps most significantly, Mr. Morita *admitted* validity of the patents in the letter signed by him at the time of the negotiation of the settlement agreement. He may have reneged on the agreement, but the signed, written admission was before the Court.

There was simply no evidence before the district court or remaining to be presented that could possibly invalidate the '891 or '468 patents. Accordingly, the court was correct in concluding that there was no reasonable likelihood that petitioners would invalidate the '891 and '468 patents.

The district court was similarly justified in concluding that respondent was likely to prevail on the issue of the petitioners' infringement of the '891 and '468 patents.¹¹ Petitioners had made no assertion of non-infringement of the '468 patent in the pre-trial order. The district court had before it evidence of the magnetic lock closures imported and sold by petitioners (Trial Exhibits 28, 59-61) and petitioners' written acknowledgment, made with the advice of counsel, that their construction infringed it. Under Rule 65(d), that admission without more would have been sufficient for a finding of likelihood of success. There was more than the minimum likelihood of respondent proving infringement at trial, there was near-certainty.

The conclusion that respondent was being irreparably harmed was also incontestable and petitioners have never attempted to contest it. The

¹¹ "The grant of a preliminary injunction does not require that infringement be proved beyond all question, or that there be no evidence supporting the viewpoint of the accused infringer. The grant turns on the likelihood that [the requestor] . . . will meet its burden at trial of proving infringement." *H.H. Robertson*, 820 F.2d at 390 (citations omitted).

district court had before it petitioners' trade releases claiming that their '294 patent, rather than respondent's '891 and '468 patents was the patent applicable to magnetic lock closures. It is difficult to imagine more compelling evidence of irreparable injury than these misrepresentations. Even absent this clear showing, respondent is entitled to a presumption of irreparable harm in view of the likelihood it would succeed in showing infringement. *Roper Corp. v. Litton Systems, Inc.*, 757 F.2d 1226, 1271-72 (Fed. Cir. 1985).

The evidence before the district court also demonstrated (again uncontested) that the balance of hardships¹² tipped in respondent's favor, and that the public's interest in enforcing valid patents would be protected by issuance of an injunction halting petitioners' disregard of respondent's patent rights.

The district court's October 7, 1988 Order also complied with the Fed. R. Civ. P. 65(d). Commenting on Rule 65's requirement that "[e]very order granting an injunction ... shall set forth the reasons for its issuance ...", the D.C. Circuit¹³ has held

¹² The Federal Circuit, after recognizing the deference due a district court's judgment on the equitable considerations of the balance of hardships and public interest, has cited with approval a district court's ruling that because a:

'patent does not have many more years to run . . . the equities weigh heavily against the wrongdoer,' and that the 'protection of patents furthers a strong public policy . . . advanced by granting preliminary injunctive relief when it appears that, absent such relief, patent rights will be flagrantly violated.'

H.H. Robertson, 820 F.2d at 391 (citations omitted).

¹³ Although the law of the Federal Circuit governs the standards for issuance of a preliminary injunction barring infringement of a patent, regional circuit law controls the issue of

that "[t]hough this requirement is mandatory, the reasons need not be stated in detail," and cited with approval the affirmance of an injunction that was justified as follows: "the danger of irreparable injury is immediate." *Price v. Williams*, 393 F.2d 348, 352 & n.4 (D.C. Cir. 1968)(footnotes omitted).

This district court gave its reasons for issuance of the preliminary injunction many times in the record. For example, during an October 7, 1988 hearing the Court stated:

I have heard enough of this case, having heard the entire defense case in advance of any evidence from the plaintiff, and then the plaintiff's evidence in part, to conclude that there is overwhelming evidence of an infringement on the part of the defendant or the defendant and plaintiff Tamao Morita and Magleader Company, Ltd.

Appendix at A3.

The belatedly-raised issue of compliance with Fed. R. Civ. P. 52(a) is particularly inappropriate to the issues before this Court. It was never even raised before the trial court. The rule only requires that the trial judge make brief, definite, pertinent findings and conclusions upon the *contested* matters. *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 872 (Fed. Cir. 1985)(quoting 5A J. Moore & J. Lucas, *Moore's Federal Practice* ¶ 52.06[1] at 52-138 (2d ed.

whether the district court, in granting a preliminary injunction has complied with Rule 65. *Hybritech Inc.*, 849 F.2d at 1451 n. 12.

1985))(emphasis added)(quoted with approval in *Pretty Punch Shoppettes, Inc. v. Hawk*, 844 F.2d 782, 784 (Fed. Cir. 1988)). Rule 52 does not require findings and conclusions as to *uncontested* issues.¹⁴ There was no requirement for a separate judicial finding of validity and infringement; *it had been admitted*.

Finally, Morita alleges that the \$100 bond set by the district court violates Fed. R. Civ. P. 65(c). However, "[t]he amount of security required is a matter for the discretion of the trial court; it may elect to require no security at all." *Corrigan Dispatch Co. v. Casa Guzman, S.A.*, 569 F.2d 300, 303 (5th Cir. 1978), *cited with approval in, Friends For All Children v. Lockheed Aircraft*, 746 F.2d 816, 838 n.42 (D.C. Cir. 1984) (approving bond of \$100 for an injunction ordering deposit of \$450,000 into a fund). The bond ordered was clearly within the district court's authority, and was appropriate to the circumstances.

C. There is No Credible Evidence of Fraud on the Patent and Trademark Office

Petitioners request that this Court exercise its supervisory authority because the Federal Circuit allegedly ignored what they have characterized as "uncontroverted evidence of fraud" and because of the Federal Circuit's refusal to find respondent's patents invalid due to fraud on the PTO. Petition at 13-15.

First, petitioners *never* asserted that the respondent's '891 and '468 patents were invalid due to

¹⁴ During the hearing at which the settlement agreement was vacated and the preliminary injunction ordered, petitioner's counsel made a specific application to halt respondents's circulation of the letter signed by Mr. Morita containing this admission. The district court refused to do so. See Appendix at pages A13-A14.

inequitable conduct at any stage of the district court proceedings. To do so now is clearly inappropriate. Further, that petitioners would make such an assertion in view of the record is shocking considering that for four (4) years, up until the collapse of their defenses at trial in August of 1988, petitioners consistently acknowledged respondent's ownership of the '891 and '468 patents and never challenged the authenticity of any of Mr. Morita's signatures submitted during the prosecution of the '891 and '468 patents. Nor does the case law and procedural guidance of the PTO relating to "fraud" (or more accurately inequitable conduct) relate to assignments of patents.¹⁵

The alleged "uncontroverted evidence" supporting petitioners' allegation of fraud on the PTO is no evidence at all. It consists of Mr. Morita's declaration to the effect that he didn't remember signing the documents and the declaration of a handwriting expert, Lyndal L. Shaneyfelt, who stated in a carefully worded declaration concerning the assignment of the '891 patent, that he could "not determine whether the signature on the document is genuine", allegedly because he was unable to obtain signature samples *from his client Mr. Morita*.¹⁶

The district court correctly accorded this declaration little weight given the pattern, demonstrated

¹⁵ No doubt in a belated recognition of this, petitioners' ever-expanding allegations of forgery were at first limited to assignments only and were only later conveniently supplemented to include another document submitted during the prosecution of the '468 patent.

¹⁶ The Shaneyfelt declaration also stated in a conclusory manner that other signatures on other documents, not even referred to in Mr. Morita's declaration, contained allegedly forged signatures. Some of these were purportedly found on documents relating to a patent not even involved in this litigation.

in the record, of petitioners' consistent written recognition of respondent's ownership of the '891 patent¹⁷ and the fact that all of the allegations sprang to life only after petitioners' trial strategy collapsed. See *Marder v. G.D. Searle & Co.*, 630 F. Supp. 1087, 1093 (D.Md 1986) (and cases cited therein); *U.S. v. R.J. Reynolds Tobacco Co.*, 416 F. Supp. 316, 325 (D.N.J. 1976); Fed. R. Evid. 702-705.

Petitioners may have made a desperate assertion of fraud, but their "somewhat dubious" allegations surely were not uncontroverted. Not surprisingly, the Federal Circuit correctly concluded that the district court in no way abused its discretion in viewing the allegation of fraud with a substantial degree of skepticism. There is no just reason for this Court to disturb that conclusion, made after a considered evaluation of the entire record. It is respectfully submitted that, as with the other arguments advanced by the petitioners to support the issuance of a writ of certiorari, the alleged existence of "uncontroverted evidence of fraud" simply provides no justification for the grant of their petition.

¹⁷ That history is compelling and was detailed by Respondent's counsel in oral argument. It includes, *inter alia*, the March 25, 1982 letter acknowledging that Petitioners did not own the '891 patent; evidence of Petitioners' marketing campaign in 1985-1986 which sought to convince the trade that Petitioners' '294, and not Respondent's '891 patent covered the magnetic lock closure; and importantly, Petitioners' pleadings and stipulated Pre-Trial Order which affirmatively acknowledge Respondent's ownership of the '891 and '468 patents.

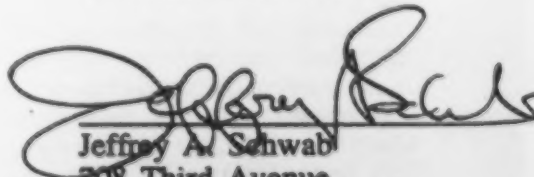
CONCLUSION

The grant of the instant petition for a writ of certiorari is unwarranted. The Federal Circuit and district court decisions were well-founded and predicated upon established principles of law. The decisions are not in conflict with any controlling precedent.

Since moving to set aside the settlement of the actions underlying this Petition in the Fall of 1988, the petitioners have submitted no less than eight (8) motions to the district and Federal Circuit courts, all of which have served no purpose other than to delay the trial which will put the petitioners' specious claim of forgery to rest. But for these tactics, the petitioners would long ago have been required to support their allegations of fraud with evidence -- an event they have vigorously avoided because they have not, and cannot produce evidence supporting this claim.

It is therefore respectfully requested that the Petition be denied in all respects and that this matter be remanded to the district court for speedy trial.

Dated: New York, New York ABELMAN FRAYNE
January 2, 1990 REZAC & SCHWAB



Jeffrey A. Schwab
708 Third Avenue
New York, New York
10017-4141
(212) 949 9022

APPENDIX

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

APPLICATION ART LABORATORIES CO., LTD.

v.

TAMAO MORITA AND MAGLEADER CO., LTD.

TAMAO MORITA AND MAGLEADER CO., LTD.

v.

APPLICATION ART LABORATORIES CO., LTD.
AND RANDOLPH RAND CORPORATION

Washington, D.C.
October 7, 1988

C.A. Nos. 84-3894
85-2539

Transcript of Status Call
Before the Honorable Thomas P. Jackson

Transcript ordered by Jeffrey A. Schwab

Counsel for Application Art
Laboratories Co., Ltd.

and Randolph Rand Corp.: Jeffrey A. Schwab
708 Third Avenue
New York, New York

For Tamao Morita and

Magleader Company, Ltd.: Joseph V. Colainni, Esq.
1730 Pennsylvania Ave.
Washington, D.C. 20006

PROCEEDINGS

The Deputy Clerk: Civil Action 84-3894 and 85-2539,
Application Art versus Tamao Morita, et. al.

Mr. Schwab for the plaintiff.

Mr. Lasker and Mr. Colainni for the
defendants.

The Court: Good afternoon, gentlemen.

Mr. Schwab: Good afternoon, Your Honor.

Mr. Colainni: Good afternoon, Your Honor.

The Court: I had anticipated that I had
heard the last of this case as of the month of August
when I thought the case had been concluded by a
settlement agreement.

I have since been presented with a form of
injunction to be entered pursuant to that agreement, a
motion to vacate the settlement, a purported
substitution of attorney and various items of
correspondence from counsel.

Let me remind counsel that we have a rule
106(B) of this court which prohibits communications
by correspondence with the court from counsel or
parties. And to the extent that you wish me to act or
act upon any matters, I would urge you to present it to
me in the form of a motion or other pleading seeking
relief and do not expect me to read the correspondence
from you. I won't. I will return it to you unread.

Now, the motion pursuant to rule 60(B) to
vacate the order entering a settlement agreement has
yet to be filed, but I intend to fiat it and allow it to be

filed, and I will treat it as being before me, and while I intend to allow you to be heard on the matter, Mr. Schwab, if you wish to make any record you desire, I also, unless you are most persuasive, intend to deny the motion, at least without prejudice for the time being, and set the matter down for hearing.

I do not intend to conduct a collateral trial on whether there was or was not a formal meeting of the minds as to the terms of the settlement back in August. If I am going to try anything, I may as well try the merits of the case. And that is what I expect to do.

It may be that at some later time it will become appropriate to take evidence with respect to the settlement, but I hope it will not.

Now, as I indicated to you in chambers, I have heard enough of this case, having heard the entire defense case in advance of any evidence from the plaintiff, and then the plaintiff's evidence in part; to conclude that there is overwhelming evidence of an infringement on the part of the defendant or the defendant and plaintiff Tamao Morita and Magleader Company, Ltd., and I am prepared, if you make an oral motion therefor, Mr. Schwab, to enter a preliminary injunction [sic] pendente lite with respect to infringement. And we will then set the case down for a hearing, conclude [sic] the taking of evidence on the merits of the case, and I will determine whether or not the injunction need be made permanent or, in the alternative,

dissolved, or entered or dissolved in part.

I am also inclined at this stage to proceed with the case in the posture in which it has been cast by the pretrial order which was previously entered, unless reason amounting to manifest injustice is shown to me to do otherwise.

I also am, at this point, inclined, following a conclusion of the case on the merits, to set the case down for a rule 11 proceeding sua sponte in which I will determine whether or not there has been a basis for all or any of the claims that have been made or defenses raised.

Finally, I have what purports to be before me a substitution of attorney. I take it as being what we call in this jurisdiction a praecipe in which one attorney replaces another with the consent of the parties and with the permission of the court.

I gather, Mr. Colainni, that it is the desire of Tamao Morita and Magleader Company, Ltd. that you replace Mr. Lasker as attorney of record for the defendant. And it appears that Mr. Lasker has endorsed his consent on it, as has Mr. Morita for himself and for his company, Magleader Company, Ltd. and I will deal with that matter first. So I am going to be dealing with only one counsel for Morita and Magleader.

Is there anything anyone wishes to say with respect to the substitution of attorney?

Mr. Lasker: No, Your Honor.

The Court: All right. Mr. Lasker indicates no objection.

I take it you desire to enter an appearance, Mr. Colainni?

Mr. Colainni: Yes, Your Honor.

The Court: Any objection, Mr. Schwab?

Mr. Schwab: No, Your Honor.

The Court: The substitution of counsel is granted. And I have so ordered.

Now, do I hear an oral motion for preliminary injunction Mr. Schwab?

Mr. Schwab: Yes, Your Honor.

The Court: Do you want to be heard now, or do you want to file a motion to dissolve it, Mr. Colainni?

Mr. Colainni: Your Honor, I think that rather than be heard, because this comes as much a surprise to me, I would prefer to file a motion to dissolve it.

The Court: A motion to dissolve it. All right. Fine. Your motion is granted subject to your motion to dissolve it.

And the bond that will be required of your client is a bond of one hundred dollars, Mr. Schwab.

Mr. Schwab: Thank you, Your Honor. Your

Honor, could I make one oral application? The injunction issued deals with the 891 patent and the design patent, which prevents infringement. As part of the settlement, the 294 patent was deemed and declared and agreed to be invalid. In view of the court's order setting aside that agreement, we would ask that the injunction also include a provision that Mr. Morita will make no attempt to enforce the 294 patent, U.S. patent

--

The Court: What I intend to do -- and this may embrace what it is that you are suggesting here -- is to enter an injunction in substance in the form as it appears on page ten of the transcript of the hearing of August 22nd, which reads, and I quote: "effective immediately, Morita and Magleader are hereby preliminarily enjoined from making, using or selling, or having made, used or sold magnetic lock closures which infringe U.S. patent 4021891 or U.S. design patent 247468, or inducing such acts, which injunction specifically includes but is not limited to magnetic-lock closures which Morita and Magleader have heretofore expressly asserted to be covered by U.S. patent 4453294.

Does that accomplish your purpose?

Mr. Schwab: No, it does not, Your Honor.

The Court: All right. Why not?

Mr. Schwab: Because part of the settlement was that 4453294 was declared invalid. On that basis, Mr. Morita

Morita could not go around and assert 294 -- that patent against third parties --

The Court: I am setting aside the settlement.

Mr. Schwab: I understand that.

The Court: Do you want to be heard on that?

Mr. Schwab: What I would like is the injunction to also include a provision that was in the settlement, in essence, that the 294 patent shall not be asserted by Mr. Morita against any third parties during the pendency of this case, because to leave it otherwise is to leave the record as if the 294 patent is valid. It's still out there and Mr. Morita could use it in the marketing of his products.

The Court: That remains something which is still in issue as far as I am concerned. And I will have to hear it. So I am going to decline to supplement the injunction as you have requested.

Mr. Schwab: Thank you, Your Honor.

Your Honor, if I could, on the basis of the court's providing me with permission to make comment --

The Court: I beg your pardon?

Mr. Schwab: You provided me permission to make comment if I wished on the record.

The Court: Yes, of course. Yes.

Mr. Schwab: First, I apologize for any apparent violation of rule 60(B) in terms of

correspondence with the court.

The Court: 106(B).

Mr. Schwab: 106(B).

The Court: Your apology is accepted and we won't mention it further.

Mr. Schwab: I only do comment, however, that I thought it was requested in the transcript where the court suggested that we submit an order with a covering letter to the other side so that they could review as to form. The letter which we sent to the court I had believed was in compliance with the court's order. I would have moved by motion if I had thought otherwise.

The Court: What I suggested that you do is that you communicate or correspond with opposing counsel to solicit opposing counsel's approval of the form of the injunction, which you would then transmit to the court without covering correspondence. But now that you understand that we have such a rule, let's proceed by way of motion.

Mr. Schwab: I would just comment for the record, undersgtanding [sic] full well the court's position on the issue, the following: the settlement was negotiated by Mr. Colainni in the presence of Mr. Morita and two interpreters, including Mr. Kashiwa, who is a Judge, Japanese-American speaking, and was in the room.

The counsel for application art came to this court

after spending the evening setting forth the general terms with counsel for Mr. Morita. We came at 9:30 in the morning for a meeting. We were asked by Mr. Colainni and others -- Mr. Lasker -- to provide them adequate time to meet with Mr. Morita. My co-counsel and I waited three hours, during which time it was our understanding that Mr. Colainni and Mr. Lasker and two interpreters were to sit with Mr. Morita and explain to him what was to go forward.

The negotiations took place in this courthouse in the conference room. The documents which were submitted were written, in essence, side-by-side with Mr. Colainni at my right hand, and each paragraph gone over side-by-side, item-by-item.

While it does take a few pages, it only covers five or six main points. All of those points, absent one, are in the letter of apology or with retraction which Mr. Morita in his statement to the court in something he signed admitted he read -- was translated to him word-for-word, which was a redraft of something that Mr. Colainni and I drafted and redrafted and redrafted.

He admitted he understood it and its contents. The motion that was before the court, had we had an opportunity in the timeframe to respond to it, would have pointed out to the court that the only thing in the settlement agreement of substance that is not exactly in the letter was the amount

of a judgment which would be issued in the event of a default.

I would only comment to the court that if the court would hvae [sic] taken an evidentiary hearing, which we may request, the court would have learned that there were literally an hour's worth of negotiation as to whether that amount of money would be used as a set-off on a royalty basis. That Mr. Morita and his two translators and three lawyers were left alone for periods of a half-hour and twenty minutes to negotiate amongst themselves and discuss the aspects of the ramifications of that.

Your Honor, we would have believed to have been able to show to the court, had we been given the opportunity, that Mr. Morita had full time and opportunity, that Mr. Morita had full time and opportunity and that Mr. Colainni, Judge Kashiwa, Japanese-American Speaking, a separate interpreter, Mr. Morita, Mr. Morita's U.S. business partner and his interpreter sat down and on a line-by-line basis went over every item with me in English and then I left. And there were questions then asked regarding meanings and interpretations.

I would believe that if the circumstances were truly tested and the affidavits which are put forward were looked at in that light and, as the court well knows, for example, on the wording of the injunction -- there was a conference in which Mr. Colainni -- we went to chambers with this court where the court refused to comment and just sent

the parties back to either settle or go to trial.

It was clear that there was a total understanding throughout as to what the objectives were in the gross and literal and specific sense.

Your Honor, I would ask that on the basis of all that has come before, one, that the court reconsider the matter. And I would ask for one other thing in the reconsideration. This motion to set this aside was first made more than thirty days after the agreement.

Regardless of what counsel for Mr. Morita and Magleader may have thought he had a right to do, I will tell the court that Mr. Morita did not comply with the provisions of the agreement which says, "bring the dies forward." They have not complied with any of the requirements insofar as we can determine. Not only did they make the motion after the period of enforcement -- because the court had indicated that while written documents were coming forward, the settlement document was to be the order of the court-- that they flaunted the order. That this motion was made after that time and that without regard to how the court ultimately determines this matter, understanding the court's predilection, that we at least be awarded the cost of this status conference and hearing and the need to attend it and that the court give some consideration to the fact that we well understand the benefits that would accrue to us by just going the full way to having

this matter resolved and found to be resolved and, albeit collateral, I would ask the court to reconsider its lack or consideration of a collateral matter.

This has been a very unusual circumstance. I have never previously run into something like it. -

Lastly, on the record, if we were to go forward, we would ask that the court give some guidance as to its calendar and possibilities. We believe that the defendants' case having gone on first and our case being literally an hour away, that the only missing piece, as we see it, is the possible cross-examination of the witness who was on the stand, and beyond that we could well rest.

And on the basis of what we've seen, I've seen no possibility for rebuttal on whatever the direct was.

The Court: You would be anticipating less than a day's additional testimony, is that correct?

Mr. Schwab: Without knowing Mr. Colainni's schedule for cross-examination, I would think it could be done in less than a day, Your Honor.

The Court: Well, Mr. Colainni indicated in chambers that he had some thought about trying to restyle the pretrial order and maybe reopen the record.

Mr. Schwab: Well, if he does that, of course, that is different issue.

The Court: He has got a heavy burden to overcome

in order to do that, but I will not foreclose his opportunity to do it.

And the other representations that you have just made as to what you would have shown in opposition to the motion to vacate, it seems to me, are relevant or will become relevant during the course of any post-merits-disposition rule 11 proceedings. I will take them into account.

Mr. Schwab: Thank you very much, Your Honor.

The Court: All right. There are three matters that then I understand you are undertaking to take the initiative with respect to, Mr. Colainni. Those are, first, to make an application, should you choose to do so, to revise the pretrial order or reopen in any respect.

Mr. Colainni: Yes, Your Honor.

The Court: Second is to move to dissolve the injunction which I intend to enter. That's a preliminary injunction. And third is to file, as you indicated in chambers, a 28 U.S. code, section 455 affidavit of bias and prejudice asking that I recuse myself.

Is there anything further that you wish to undertake to accomplish before we schedule this case for further proceedings on the merits?

Mr. Colainni: Yes, Your Honor. Prelimiarily [sic], I would like to take up one matter. And that is after the August 22nd hearing, plaintiff, Application Art, went around

and circulated a letter of retraction to the industry.

Now, I understand that since the settlement negotiations -- the settlement agreement has been vacated -- that a preliminary injunction will be entered. However, we would appreciate it, Your Honor, if they would stop circulating letters of that sort.

The Court: I am not going to tell them now not to circulate anything. I am going to enjoin your client's attempts to enforce his rights to market those items which infringe or purportedly infringe the patents in issue here. I am going to enter an injunction in the form that I have in substance indicated that I intend to use. And beyond that, I don't intend to do anything other than set this case down for an early disposition on the merits.

Mr. Colainni: The letter of retraction, as it's characterized, Your Honor, indicates that the patent -- the 294 patent, I believe it is -- is invalid. And there are other staetments [sic] made in that letter of retraction that has been circulated. We don't think that they're accurate, and if necessary, we will file a motion to have them stopped.

The Court: Fine. File a motion.

Mr. Colainni: All right.

The Court: All motions within ten days,
Mr. Colainni.

Mr. Colainni: Very good. We have nothing else, Your Honor. Thank you very much.

The Court: Very well.

Mr. West, may I see the calendar.

We will have a status conference on October 28th.

I take it that for your purposes, Mr. Schwab, the afternoon is preferable to the morning, is that correct?

Mr. Schwab: It is, Your Honor, but I would accommodate the Judge's schedule any way possible.

The Court: Well, I am not going to bring you down here at 6:00 o'clock in the morning.

2:00 o'clock, October 28th. I will at that time determine what motions then pending will require a hearing before me and which can proceed to disposition on the papers. And I also intend at that time to set a date for the resumption of the trial.

I will want, counsel, a copy of the transcript of the earlier proceedings, which will, of course, become part of the record for the remainder of the trial.

Is there anything further, gentlemen?

Mr. Schwab: No, Your Honor.

The Court: Have a nice weekend. We will stand in recess.

(Whereupon, the above-entitled matter was adjourned.)